

# Black Gold in the Caspian

## Opportunities for U.S. Oil and Gas Firms in Azerbaijan

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Many years ago, people traveled the Silk Road to trade goods, services, and ideas.

Today, foreign businesses are continuing to travel this ancient route and stopping in Baku, Azerbaijan, to take advantage of commercial opportunities in the oil and gas industry. Azerbaijan, located in the Caspian Sea region, gained independence in 1991. Baku, the country's capital, is located on the Caspian Sea, which affords Azerbaijan easy access to shipping and oil and natural gas reserves. Currently, Azerbaijan relies on the oil and gas sector for a large percentage of their income, with crude oil and oil products comprising over 70 percent of Azerbaijan's exports and oil-related revenue constituting 50 percent of the country's budget.

Foreign investment has revitalized the country's oil sector by developing new projects, refurbishing equipment, and modernizing training methods. To date, U.S. firms, especially small and medium-sized companies, have been apprehensive to do business in Azerbaijan because of political and economic factors. To support and attract foreign investment and business, Azerbaijan has made key economic and political reforms, reinforcing regional stability and decreasing major trade obstacles. Azerbaijan is a challenging business market, but patience is the key.

### EAST-WEST ENERGY CORRIDOR

Due to global demand for energy and Azerbaijan's position at an East-West crossroads, burgeoning oil and gas opportunities in the Caspian Sea region exist. Industry and government

experts estimate that crude oil reserves will reach 7 to 13 billion barrels, and natural gas production will reach approximately 30 trillion cubic feet. In 1992, the State Oil Company of Azerbaijan (SOCAR) was established, merging two of the country's state oil companies. SOCAR and its many subsidiaries are responsible for the production of oil and natural gas in Azerbaijan, operation of two refineries, running pipeline systems, and managing oil trade. Currently Azerbaijan only has two oil pipelines to export oil: the Baku-Novorossiisk pipeline (northern route) and the Baku-Supsa pipeline (western route).

There are three major projects in Azerbaijan that constitute a majority of the oil and gas opportunities for foreign investment in the region: Azeri-Chirag-Guneshli (offshore oil), Shah Deniz (natural gas), and the Baku-Tbilisi-Ceyhan oil pipeline. Although many of these projects have been tendered or are in current development, many subcontracting opportunities exist for U.S. firms, including offshore exploration, production, services, and onshore infrastructure and pipelines. Key procurement opportunities include drilling equipment, civil engineering, pipe coatings, pipe-laying equipment, gas processing, pump stations, and training.

British Petroleum (BP) is leading exploratory efforts in the region and is the major operator of the Azerbaijan International Operating Company (AIOC) consortium, which oversees the Azeri-Chirag-Guneshli (ACG). BP also is the lead operator in the Shah Deniz consortium. By the end of the third

phase of the ACG project (or full field development), industry experts predict that there will be 5.4 million barrels, with one million barrels for export. The Shah Deniz project, considered one of the largest natural gas discoveries in 20 years, was sanctioned in early 2003. First phase development entails the installation of a new fixed offshore platform, two undersea pipelines, and a new onshore gas-processing terminal. Future project opportunities include offshore platforms, drilling services, well casing, and maintenance. The Baku-Tbilisi-Ceyhan (BTC) project is estimated to produce 1 million barrels per day, with first production expected in early 2005.

### HOW TO DEVELOP OPPORTUNITIES IN AZERBAIJAN

With more than 90 U.S. companies successfully operating in Baku, there is still growth potential for small and medium-sized U.S. companies. Although U.S. companies have been apprehensive to explore the oil and gas industry in Azerbaijan, future growth prospects exist, as outlined above. By developing a solid long-term, market-entry strategy, U.S. firms can be successful in Azerbaijan and the Caspian region. Key elements include partnering with major foreign and Azeri players, working under a production sharing agreement (PSA), following market development trends, and leveraging advocacy and trade promotion assistance from key international organizations.

Partnering with foreign or local distributors on current subcontracting opportunities is a good way to explore

the market while working with someone who is familiar with the market and without committing considerable resources. One way to find up-to-date project information and future procurement opportunities is to register your firm as a supplier on the Web site of the Enterprise Center in Baku ([www.ecbaku.com](http://www.ecbaku.com)). As part of the AIOC, BP has created this site, where oil and gas firms, including U.S. firms, can register as pre-qualified suppliers and submit bids on future tenders. Because of the exploratory nature of oil and gas projects in Azerbaijan, the Azeri government has worked with international organizations and the business community to decrease trade obstacles to foreign investment. One example is by creating PSAs, helping to mitigate risk by providing a solid foundation for foreign investment in oil- and gas-related sectors. (PSAs, which supersede national laws, outline favorable trade terms, such as exempting foreign investors from hefty value-added tax or import tax and outlining minimal local content requirements.)

Once you know what projects exist and who the players are, how can you meet the right people to cement the partnership? You can start by working with several regional and U.S.-based trade promotion agencies. The U.S. Department of Commerce offers various products and services to ensure that U.S. companies expand their presence effectively and securely in Azerbaijan and the Caspian region. The U.S. Commercial Service, partnered with BISNIS (Business Information Service for the Newly Independent States), offers custom products and services to help you meet pre-qualified key industry and business players, obtain up-to-date market research, and access advocacy assistance on major projects and trade obstacles.

Now that you have the tools to find key players to partner with, you need trade finance options to increase your attractiveness to potential partners. One way to tap into project finance is to visit the

Caspian Finance Center, which was established to help U.S. companies identify, evaluate, and finance commercially viable projects in the Caspian region. The Caspian Finance Center brings together the resources of the U.S. Trade and Development Agency, the Overseas Private Investment Corporation, and the Export-Import Bank of the United States. The Caspian Finance Center, along with the Commercial Service, has facilitated the development of viable projects within the region for U.S. companies, including the BTC and the trans-Caspian pipeline, by helping U.S. companies leverage important opportunities.

Attending industry-related business development seminars and trade shows will increase your chances of commercial success in the region. In January 2003, the U.S. Commercial Service, along with the World Trade Center in New Orleans, organized a business development conference, providing a networking forum to bring together American and Caspian region firms. To maximize the synergies at the conference, many firms attended the Caspian Oil and Gas Show, the premier industry venue, bringing together major industry and government players from all over Europe, Asia, Central Asia, and the Middle East. The show is a great way to meet the people you need to know to access projects, business opportunities, and trade finance. For more information, visit [www.caspianevents.co.uk](http://www.caspianevents.co.uk).

### LOOKING AHEAD

Azerbaijan is an emerging market that requires patience, fortitude, and flexibility to ensure success. With further foreign investment and project development, the country is positioning itself to become a major energy player in the global market. By tracking current market and project developments, you will be able to take advantage of procurement and subcontracting opportunities on the horizon. Furthermore, by strategically aligning yourself with key industry and government players in both the U.S. and

Azerbaijan, you will be able to navigate the oil and gas industry and find lucrative opportunities. Once you have successfully achieved your commercial goals in Azerbaijan, you will be able to expand throughout the Caspian Sea region, especially in Kazakhstan. Do not miss out on your opportunity to create your own route to the modern Silk Road. ■

## YOUR ROUTE TO THE SILK ROAD

### Key Industry and Government Resources

#### U.S. Commercial Service

U.S. Department of Commerce

To find your local office and learn about trade promotion services, business development seminars, and trade shows, visit [www.export.gov](http://www.export.gov). The back cover of this magazine also includes a list of offices. Current market research on the Caspian region is also located at [www.export.gov](http://www.export.gov).

#### BISNIS

U.S. Department of Commerce

Tel: (202) 482-4655

Fax: (202) 482-2293

E-mail: [bisnis@ita.doc.gov](mailto:bisnis@ita.doc.gov)

Web site: [www.bisnis.doc.gov](http://www.bisnis.doc.gov)

#### Trade Advocacy Center

U.S. Department of Commerce

Tel: (202) 482-3896

Fax: (202) 482-3508

Web site: [www.trade.gov/advocacy](http://www.trade.gov/advocacy)

#### Embassy of the United States in Azerbaijan

Tel: +994-12-980335

Fax: +994-12-656671

Web site: [www.usembassybaku.org](http://www.usembassybaku.org)

#### Caspian Finance Center

Tel: +90-312-468-6081

Fax: +90-312-466-6082

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#### American Chamber of Commerce in Azerbaijan

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E-mail: [info@amchamaz.org](mailto:info@amchamaz.org)

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#### U.S.-Azerbaijan Chamber of Commerce

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